

# AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON KOU-KAMMA MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the accompanying financial statements of the Kou-Kamma Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages ... to ....

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Revenue

4. Revenue from service charges is recorded in the statement of financial performance and in note 22 at R14,5 million (2009: R13,6 million). I was unable to obtain sufficient appropriate evidence for various components of service charge revenue because: audit trails of revenue batches totaling R13,2 million were not available for audit purposes; council approved tariffs for electricity, water, refuse and other service charges were not correctly applied to consumer accounts; and a large number of properties within the municipal boundary either do not have water meters installed or where these are installed they are not operational. The municipality's accounting records did not permit the application of alternative procedures to this revenue. As a result I was unable to confirm the completeness, occurrence, accuracy, cutoff and classification of service charge revenue and the related receivables.
5. Revenue from fines is disclosed in the statement of financial performance at R420 004 (2009: R236 270). Reconciliations were not performed between traffic income deposits, supporting information from the service provider (including cancelled fines), payments to the service provider and the fines ledger account. Furthermore, fines that were cancelled, whether by the municipality's traffic officials or by the service providers, are not authorised by a senior independent person. There were no alternative audit procedures that I could perform to obtain reasonable assurance that revenue from fines is accurate and complete. Consequently I did

not obtain sufficient appropriate evidence relating to the accuracy and completeness of fines revenue as recorded in the statement of financial performance.

6. Property rates revenue is disclosed in the statement of financial position at R6,97 million (2009: R4,9 million). Management was unable to provide supporting documentation for the unreconciled amount of R428 983 between the council approved valuation roll and the amount recorded in the financial statements. As a result I was unable to obtain sufficient appropriate evidence relating to the completeness, occurrence and accuracy of property rates.
7. Other income is disclosed in the statement of financial performance at R1,35 million (2009: R217 858) and note 4 to the financial statements. Journals and related supporting documentation to the value of R827 057 included in this amount were not provided for audit purposes. The municipality's records did not permit the application of alternative procedures to these amounts. As a result I was unable to obtain sufficient appropriate evidence relating to the existence, valuation, accuracy, completeness and classification of other income disclosed in note 4.
8. Revenue was not disclosed and measured at fair value taking into account imputed interest as required by International Financial Reporting Standards, IFRS 7, Financial Instruments: Disclosure and International Accounting Standards, IAS 39, Financial Instruments: Recognition and Measurement respectively. The entity's records did not permit the application of alternative audit procedures regarding the amounts that should have been reclassified. As a result revenue and interest as disclosed in the statement of financial performance have not been classified correctly.

#### **Receivables**

9. Trade receivables are disclosed in note 3 and note 4 in the financial statements at R72,6 million (2009: R60,6 million) (before impairment). Included in the age analysis are debtors in the name of Kou-kamma Municipality to the value of R3,56 million. In terms of *GRAP 9: Revenue*, an entity cannot create itself as a debtor. The municipality is currently unable to determine whether or not these are "own" debtors or whether it is a legitimate consumer. The municipality has fully impaired these debtors, as opposed to reversing the transactions. Due to the lack of records there were no alternative procedures I could perform to verify that the classification of the impairment relating to the municipal debtor in the statement of financial performance was correct. As a result sufficient appropriate evidence relating to the classification of this impairment as an expense or as a reversal of revenue was not obtained.
10. Amounts due from sundry debtors are disclosed in note 4 in the financial statements at R1,16 million (2009: R1,5 million). Journals and other supporting documentation to the value of R258 145 included in this amount were not provided for audit purposes. The municipality's records did not permit the application of alternative procedures to these amounts. As a result I was unable to obtain sufficient appropriate evidence relating to the existence, valuation, accuracy, completeness and classification of the amounts due from fines as disclosed in note 4.

#### **Payables**

11. Trade payables are disclosed in note 13 to the financial statements at R15,6 million (2009: R20,3 million). The creditor's age analysis reflects an amount of R12,7 million. Management was unable to provide supporting documentation for the unreconciled amount of R2,9 million between the creditors age analysis and the amount disclosed in the financial statements. The municipality did not have adequate accounting records to permit the application of alternative audit procedures to this difference. As a result I was unable to obtain sufficient appropriate evidence relating to the completeness, accuracy and valuation of trade payables.

12. Other payables are disclosed in note 13 in the financial statements at R2,9 million (2009: R3 million). This amount was not supported by documentation or reconciliations. The municipality did not have adequate accounting records to permit the application of alternative audit procedures to this amount. As a result I was unable to obtain sufficient appropriate evidence relating to the accuracy and valuation of the other payables.
13. The municipality did not include a payable for the amount of R103 125 owed to the Cape Joint Pension Fund at year end in its financial statements. This liability arose as a result of its obligation to subsidise a shortfall in the fund's anticipated returns for the year ended 30 June 2009. Consequently, trade and other payables as disclosed in the statement of financial position and employee costs as disclosed in the statement of financial performance are understated by R103 125.
14. Trade payables are disclosed in note 13 to the financial statements at R15,6 million (2009: R20,3 million). The municipality incorrectly accrued expenditure of R155 263 which related to the 2010-11 financial year in the amount disclosed in note 13. As a result trade payables and expenditure are overstated by R155 263.

#### **Expenditure**

15. Expenditure, including contracted services, bulk purchases of electricity and water and general expenses is disclosed in the statement of financial performance at R13 million (2009: R20,1 million). Expenditure totaling R5,8 million were not supported by appropriate documentation such as contracts and invoices. The municipality did not have adequate accounting records to permit the application of alternative audit procedures to this amount. As a result, sufficient appropriate audit evidence relating to the occurrence and accuracy of expenditure to the value of R3,5 million could not be obtained. Furthermore, due to the above limitations, I was unable to determine the effects on trade payables and VAT.
16. Expenditure to the value of R1,1 million relates to the prior year and has incorrectly been included in the statement of financial performance. The result of this is that expenditure and accumulated surplus as disclosed on the statement of financial performance and statement of changes in net assets are overstated by R1.1 million.
17. General expenses and bulk purchases are disclosed in the statement of financial performance at R8,96 million (2009: R12,8 million) and R1,5 million (2009: R1,9 million) respectively. Expenditure on bulk purchases to the value of R1,4 million has been incorrectly allocated to general expenses. As a result expenditure on bulk purchases is understated and general expenses are overstated by this amount.
18. Expenditure was not disclosed and measured at fair value taking into account imputed interest as required by International Financial Reporting Standards, IFRS 7, Financial Instruments: Disclosure and International Accounting Standards, IAS 39, Financial Instruments: Recognition and Measurement respectively. The entity's records did not permit the application of alternative audit procedures regarding the amounts that should have been reclassified. It should be noted that the municipality does not have a creditors' age analysis and ageing of the individual balances can therefore not be determined. As a result expenditure and interest as disclosed in the statement of financial performance have not been classified correctly.

#### **Value added tax (VAT) payable**

19. The VAT payable disclosed in the statement of financial position at R515 879 (2009: R2,2 million) is not supported by appropriate records and reconciliations. As a result, I could not confirm that transactions to the value of R2 million recorded in the VAT payable control

accounts were valid. The lack of appropriate records prevented the application of alternative procedures to these transactions. Consequently, I was unable to obtain sufficient appropriate evidence relating to the obligations, valuation, classification and accuracy of the VAT payable of R515 879 disclosed in the statement of financial position. Furthermore due to the above limitations, I was unable to determine the effects on expenditure and trade payables.

#### **Property, plant and equipment (PPE)**

10. PPE is disclosed in the statement of financial position at R217,36 million (2009: R103,27 million). GRAP 17: Property, plant and equipment, read with Directive 4, requires the municipality to recognise PPE. Even though PPE was reflected at provisional values, the municipality is still required to maintain a complete listing of assets. Properties were identified in the valuation roll that were not included in the PPE register. The properties have a nil value per the roll. The municipality did not have adequate accounting records to permit the application of alternative audit procedures. As a result, sufficient appropriate audit evidence relating to the completeness of PPE could not be obtained

#### **Cash and cash equivalents**

21. The entity could not provide sufficient appropriate audit evidence to support the reconciling items totalling R652 453, between cash and cash equivalents stated in the statement of financial position at R7,7 million (2009: R9,8 million) and the cash at banks amount stated on the year-end bank reconciliations at R7,0 million. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights, completeness, accuracy, valuation and classification of cash and cash equivalents.

#### **Government grants and subsidies received**

22. Government grants and subsidies received are disclosed in the statement of financial performance at R159, 9 million (2009: R39,8). There is an unreconciled difference of R688 311 (2009: R2,6) between the amount disclosed in note 25 to the financial statements and that which is disclosed in the statement of financial performance. In addition to this there is an unreconciled difference of R151 359 between the Transferred to revenue in note 25 and the Quarterly expenditure in Appendix F as well as an unreconciled difference of R2,8 million between the current year receipts and the quarterly receipts in Appendix F. As a result the disclosure regarding government grants and subsidies received is inaccurate.

#### **Inventory**

23. The municipality failed to record water inventory at year end. The amount of such water inventory cannot be quantified as no count was performed. The municipality did not have adequate accounting records to permit the application of alternative audit procedures.

#### **Unauthorised, irregular and fruitless and wasteful expenditure**

24. Documentary and other evidence that awards of R6,4 million were made in accordance with the supply chain management policy could not be provided. There were no alternative procedures that could be performed to obtain reasonable assurance that these awards were in accordance with the supply chain management policy. As a result sufficient appropriate evidence relating to the completeness of the irregular expenditure disclosed in note 43.3 to the financial statements could not be obtained.
25. The municipality has incurred unauthorised expenditure by: exceeding the approved operating budget by an amount of R32,4 million; and using conditional grants for operating expenditure of R21,4 million. These amounts have not been included in the unauthorised expenditure

disclosed in note 43.1. As a result the unauthorised expenditure of R16,97 million disclosed in note 43.1 is understated by R53,8 million.

26. Irregular expenditure of R880 674 incurred in contravention of the supply chain management policy and legislation was omitted from the amount disclosed in note 43.3. As a result the irregular expenditure of R345 716 disclosed in note 43.3 is understated by R996 108.
27. The fruitless and wasteful expenditure of R117 426 disclosed in note 43.2 in accordance with section 125(d) does not include interest and legal costs of R98 469 incurred as a result of the delay in payments to suppliers. As a result the fruitless and wasteful expenditure as disclosed is understated by R98 469.

#### **Disclosure**

28. Credit quality of financial assets: Consumer debtors is disclosed in Note 46.10 to the financial statements. Counter parties without credit rating is incorrectly disclosed at an amount of R50 million instead of R1,4 million.
29. The budgeted figures disclosed in the financial statements did not agree to budgeted figures submitted to council. As a result we could not confirm that the budget disclosed and used for determining the unauthorised expenditure is in fact correct.

#### **Disclaimer of opinion paragraph**

30. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **Emphasis of matters**

31. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### **Restatement of corresponding figures**

32. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a prior year errors as discovered during the audit of the 30 June 2009 financial statements.
33. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a change in accounting policy. During the prior period the municipality had utilised the exemption granted by the Minister of Finance in terms of General Notice 522 of 2007, regarding compliance with certain requirements of IAS 19. The transitional defined benefit liabilities for Post-employment Health Care Benefits and Long Service Allowances have been recognised in the financial statements of the municipality as at 30 June 2010 in terms of IAS 19, 155(a). Thus the full net liabilities as at 30 June 2009 have been recognised immediately in the financial statements.

#### **Material losses through impairments**

34. As disclosed in note 30 to the financial statements, material losses to the amount of R19,2 million were incurred in the current year and an additional amount for 2009 of R12,3 million has been recognised through the correction error in note 38.2. These resulted from the significant impairment of debtors due to poor collection practices by management.

### **Financial sustainability**

35. As disclosed in note 50 to the financial statements, there are conditions that indicate the existence of a material uncertainty that may cast doubt on the municipality's to deliver uninterrupted services to its community.
36. Factors supporting the uncertainty relating to financial uncertainty are listed below:
- Debtors' recoverability days has worsened in 2009-10 to 865 days compared to 825 days in 2008-09 which is out of line with the norm in the industry.
  - The average creditor payment period increased from 398 days in 2008-09 to 513 day in 2009-10.
  - Certain service providers have suspended their services to the municipality due to non-payment and certain suppliers only provide services on the cash basis now.
  - The community is refusing to pay for services due to incorrect accounts, faulty water meters and a delay in receiving statements.
  - Management has not implemented plans to elevate the cash-flow problems other than to try and implement a credit collection policy. The credit collection policy has not been implemented adequately during the 2009-10 financial year.
  - Lack of compliance has already affected the municipality as certain grants have been allocated to Cacadu to administer as the municipality lacks the capability to utilise the funds efficiently.
37. The MEC responsible for Local Government and Traditional affairs in the Eastern Cape issued a Notice to assume responsibility for the administration in terms of section 139(1)(b) of the Constitution of the Republic of South Africa, (Act no 108 of 1996) on the 9<sup>th</sup> April 2009. The intervention was for an initial period of three months subject to review and has subsequently been extended to November 2010.

### **Council approval for the following write offs**

38. The write-off of the following items was approved by council, at the council meeting dated 27 October 2010, and have been written-off in the financial statements. These balances related to various long-outstanding amounts in the ledger for which no supporting documentation exists and no claims for payment have been lodged with the municipality:
- Sundry creditors – R103 861
  - Medical aid fund contributions – R80 067
  - Salary accounts – R21 193 and R149 083
  - Internal bank transfer suspense – R22 507
  - Over/under bank suspense – R40 930
  - R/D cheques suspense – R25 078
  - Deposit income suspense – R101 864
  - Deposits not receipted – R11 968
  - Consumer debtors year end levies – R45 499
  - Subsistence and travel advances – R103 716

### **Additional matters**

39. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Unaudited supplementary schedules**

40. The supplementary annexures set out on pages ...to ...do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express and opinion on these.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

41. In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with section 45 of the Municipal Systems Act and financial management (internal control).

##### **Predetermined objectives**

42. The Kou-Kamma Municipality did not prepare an annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

##### **Compliance with laws and regulations**

##### **Municipal Finance Management Act of South Africa, No 56 of 2003 (MFMA)**

##### **Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure**

43. Contrary to section 11(1) of the MFMA a petrol card was in issue to the mayor of the municipality and withdrawals of R39,265 were made during the year.

##### **The financial statements were not prepared in accordance with applicable legislation**

44. Contrary to the requirements of section 122(1) of the MFMA the financial statements submitted for audit did not fairly present the financial results and financial position of the entity and as a result a number of material misstatements were identified during the audit, some of which were corrected by management.
45. Contrary to section 125(2)(d)(i) of the MFMA, the municipality did not disclose material losses with regard to bulk purchases of water and electricity.

##### **The audit committee was not properly established or not functioning properly**

46. Contrary to section 166 of the MFMA, the municipality did not have an audit committee in place during the year.

##### **The internal audit unit was not properly established or not functioning properly**

47. Contrary to section 165 of MFMA, the municipality did not have an internal audit unit in place during the 2009-10 year.

##### **Expenditure was not paid within the parameters set by applicable legislation**

48. Contrary to section 65(2)(e) of the MFMA, which states that payments for goods and services should be made within 30 days of receiving the relevant invoice or statement, the municipality has exceeded its payment terms. It was noted during the final analytical review that the average payment period was 513 (2009: 398 days).

##### **Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)**

4. Contrary to section 116(1)(a)(i) and (b)(i) of the MFMA, a contract relating to the award of a tender was not signed before the work commenced and a contract did not include provisions for termination of the contract or provisions relating to non or underperformance.

**Other**

5. Contrary to Section 53 (2) of the MFMA, the mayor did not report to council and the Provincial MEC for Finance, the delay in the signing of the annual performance agreements.
5. Contrary to section 69(3) of the MFMA, the accounting officer did not implement and submit within 14 days after approval of the budget the draft service delivery and budget implementation plan and the draft annual performance agreements to the mayor.
5. Contrary to section 64(2)(a) and (g), 97(a) and (b) of the MFMA, the accounting officer has not implemented an effective revenue collection system and all revenue due to the entity was not collected. Furthermore, the municipality has not taken any action to disconnect services for long outstanding consumer debtors and no interest is charged on long outstanding receivables.
5. Contrary to section 81 of the MFMA the suspended chief financial officer failed to perform his duties as required by the Act.
5. Contrary to section 64(3) of the MFMA, the municipality did not immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than thirty days.
5. Contrary to section 127(1) of the MFMA, the entity did not submit its annual report to the municipal manager within 6 months after the financial year end.
5. Contrary to section 74(1) of the MFMA the accounting officer of a municipality did not submit to the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or may be required.
5. Contrary to section 15 of the MFMA the municipality failed to appropriate, expenditure within the respective limits of the budget.
5. Contrary to section 18 of the MFMA, the municipality failed to fund expenditure from realistically anticipated revenues.
5. Contrary to section 28(5) of the MFMA, the municipality failed to include explanations of how the adjusted budget will affect the annual budget and also failed to include an explanation of the impact of any increased spending over the next two financial years.

**Municipal Systems Acts, No 32 of 2000 (MSA)**

**No reporting against predetermined objectives, indicators and targets**

60. The Kou-Kamma municipality did not adopt or implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.



61. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.
62. The annual report for 2008-09 and draft annual report for 2009-10 of the municipality did not include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA.
63. The municipality did not appoint a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.
64. Contrary to section 47(b) of the MSA, there are no performance agreements in place for section 57 employees.

**Supply Chain Management legislative requirements were not implemented or not adhered to**

65. Contrary to clause 7 of the Code of Conduct for councillors in schedule 1 of the Local Government: Municipal Systems Act, four of the identified persons in the service of the municipality did not declare their interests in providers. Furthermore, all annual declarations obtained were only signed after year end.
66. Contrary to section 83(1) and (2) of the MSA, the municipality failed to comply with the regulations of this section regarding the awarding of a contract. The contract did not go through a competitive bidding process as required by the Act. As a result R508 512 of irregular expenditure is also not disclosed.

**Other**

67. Contrary to section 95 of the MSA the municipality has not implemented the Customer care and management policy, Credit control and debtors control policy.

**Water Service Act section, No 108 of 1997 (WSA)**

68. Contrary to the WSA, section 21(2), water meters are not installed for every property which is supplied with water.

**DoRA**

**The accounting officer did not adhere to his/her statutory responsibilities**

69. Contrary to section 11(2) DORA, the municipality failed to provide National Treasury with certification indicating funds appropriated by the schedule 4 allocations in its annual budget as required by the Act.

**INTERNAL CONTROL**

70. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and DoRA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
71. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Management's philosophy is positive, however, oversight responsibilities over reporting, compliance with laws and regulations and internal control are not exercised and the accounting officer does not evaluate whether management has implemented effective internal controls.

- **Financial and performance management**

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit and pertinent information is not identified in a form and time frame to support financial and performance reporting.

- **Governance**

There was no internal audit function or audit committee in place during the year due to limited funds. Due to these limitations and other factors the municipality was not guided regarding internal controls and financial and risk management. There was thus also insufficient oversight over the effective operation of internal controls. This contributed to the above findings mentioned in the preceding paragraphs.

## **OTHER REPORTS**

### **INVESTIGATIONS**

#### **Investigations in progress**

72. An investigation was conducted during 2010 by the council based on the allegation of possible cash shortage at certain cash points at the municipality. It was found that an amount of R29 384 was misappropriated by an employee and a disciplinary hearing was scheduled for June 2010 but she is currently on maternity leave and a disciplinary hearing will proceed when she returns.

#### **Investigations completed during the financial year**

73. An investigation was conducted during January 2009 by the council based on the allegation of possible non-compliance with the constitution and the MFMA by the previous municipal manager and the strategic services manager. These cases were finalised during the year and all the monies owed by the officials have been deducted.
74. An internal audit on remuneration was conducted by management on the January 2009 payroll into the payment of allowances. It was reported that the allowances paid to employees are overpaid and not in line with current municipal policies. It was also found that salary increases were implemented without authorisation by council. Management is currently in the process of revising the remuneration policies and negotiations are taking place with labour forums with regards to vehicle allowances. Management will also assess the re-appointment of staff in terms of their current positions. The recommendations are in the process of being implemented.
75. An investigation was conducted during February 2009 by the council based on the allegation of cash shortage at the Joubertina satellite office. It was found that an amount of R25 344 was misappropriated by an employee. The municipality instituted a disciplinary tribunal of which the employee was subjected to. This employee immediately resigned. A case of theft and fraud was opened with South African Police Services. The money was however recovered from the employee.

76. There was an investigation conducted in September 2007 by an external audit firm with regard to irregularities at the municipality's vehicle testing centres and activities related to the traffic management system. The external audit firm presented a draft report to the acting municipal manager during April 2010 and this report was subsequently approved by council. Department of Local Government and Traditional Affairs have sent a staff member from their legal department to follow up on the issues raised. All queries have been addressed by the municipality. The centre has been re-opened on recommendation from the Department of Transport.
77. The Special Investigation Unit (SIU) conducted an investigation in February 2010 into the tender and supply chain management processes and salary payments at the municipality. The SIU report was tabled before council in May 2010 and recommendations have been made, which will be followed up by an appointed legal advisor from the Department of Local Government and Traditional Affairs and the municipality. The matters raised in the investigation reports are of a serious nature and the municipality is required to continuously update the Department of Local Government and Traditional Affairs with the remedial actions taken. The recommendations have since been implemented.
78. An investigation was initiated during March 2010 by ABSA Bank and South African Police Service with regards to the unauthorised transfers of funds from the main bank account to the amount of R1 400 000. This amount except for R476 was however recovered in May 2010. The previous CFO is also facing charges regarding this matter.

*Auditor-General*

East London

30 November 2010



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*